

**STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT**

IN THE MATTER OF:
AMERIPRISE FINANCIAL
SERVICES, INC.

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) **File No: 0500280**
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)

NOTICE OF HEARING

TO THE RESPONDENT: Ameriprise Financial Services, Inc. CRD#6363
C/o John Junek
Office of General Counsel
50601 Ameriprise Financial Center
Minneapolis, MN 55474

You are hereby notified that pursuant to Section 11.F of the Illinois Securities Law of 1953 [815 ILCS 5/1 *et al.*] (the "Act") and 14Ill. Adm. Code 130, Subpart K, a public hearing will be held at 69 West Washington Street, Suite 1220, Chicago, Illinois 60602, on the 22nd day of September, 2008 at the hour of 10:00 a.m. or as soon as possible thereafter, before James Kopecky, Esq. or such other duly designated Hearing Officer of the Secretary of State.

Said hearing will be held to determine whether an Order should be entered against the Respondent in the State of Illinois and/or such other relief should be granted as may be authorized under Section 11 of the Act, including, but not limited to, the imposition of a monetary fine in the maximum amount of ten thousand dollars (\$10,000.00), per violation, pursuant to Section 11.E(4) of the Act, payable within ten (10) business days of the entry of the Order.

The grounds for such proposed action are as follows:

FACTUAL ALLEGATIONS

1. Ameriprise Financial Services, Inc. ("AFSI") is a broker-dealer firm registered with the State of Illinois Securities Department ("Department") as an entity engaged in the business of offering, selling or otherwise engaging in the dealing or trading of securities with its corporate headquarters at 707

Second Avenue South, Minneapolis, Minnesota. AFSI's affiliate, RiverSource Investments, is an investment advisor firm managing assets in excess of twenty-five million dollars (\$25,000,000.00), and therefore, is registered with the Securities and Exchange Commission.

2. Ameriprise Financial, Inc., the parent company of AFSI, was a wholly-owned subsidiary of the American Express Company and was known as the American Express Financial Company. On September 30, 2005, Ameriprise Financial, Inc. separated from the American Express Company. Respondent AFSI, the subsidiary of Ameriprise Financial, Inc., provides brokerage, investment and advisory services.
3. Ameriprise Financial Inc. is also the parent company of RiverSource Investments, which provides research, analysis and investment management services to the RiverSource Mutual Funds. For the time period at issue, these funds were called the American Express Funds (the "Proprietary Mutual Funds"), and the predecessor of RiverSource Investments, American Express Financial Corp., provided research, analysis and investment management services to the American Express Funds.
4. AFSI operates through branch and franchise offices throughout the State of Illinois. AFSI investment advisor representatives are known as "Personal Advisors," most of who are independent contractors to AFSI.
5. Since January 1, 2000, AFSI has operated through approximately 130 branch and franchise offices throughout the State of Illinois.
6. Since January 1, 2000, AFSI has employed in excess of 900 Personal Advisors throughout the State of Illinois.
7. In connection with the Administrative Actions, the Securities Department investigated the sale of Proprietary Mutual Funds by AFSI to its financial planning clients from January 1, 2000 through August 1, 2005 (the "Relevant Time Period").
8. AFSI offers to its Illinois clients financial planning services by which its Personal Advisors are to provide financial plans ("Financial Plan") and ongoing financial advice to clients for an annual fee, which can range from \$300 to \$750 on average, with higher costs depending on the complexity of the client's financial situation.
9. Personal Advisors use the Financial Plans to assist in determining what investment and insurance recommendations to make to the client.
10. The purchase of a Financial Plan does not eliminate charges, commissions, or fees incurred by the purchase of any investment or insurance product that the

Personal Advisor recommends the client buy in furtherance of the respective Financial Plan.

11. During the relevant time period approximately fifty-four thousand (54,000) Financial Plans were sold to AFSI's Illinois clients.
12. AFSI sells, among other securities and insurance products, over 2000 different mutual funds, including Proprietary Mutual Funds.
13. Like other mutual funds, the Proprietary Mutual Funds issue prospectuses and Statements of Additional Information that are provided to investors and prospective investors, and which contain pertinent information and disclosures regarding the funds. Both the prospectuses and the Statements of Additional Information are changed periodically to reflect new or modified information.
14. Between January 1, 2000 and May 1, 2003, to promote the sale of Proprietary Funds, AFSI provided certain financial incentives to its Personal Advisors.
15. Those financial incentives included higher commission payouts for the sale of Proprietary Funds, as well as waiving ticket charges for the sale of Proprietary Mutual Funds while requiring Personal Advisors to pay the ticket charges for the sale of non-proprietary funds. Those incentives remained in place until May 2003.
16. These practices created financial incentives for AFSI Financial Advisors to recommend to clients the purchase of AFSI Proprietary Funds.
17. The financial incentives that were associated with the sale of Proprietary Funds over equivalent, non-proprietary funds created a potential conflict of interest for AFSI and its Personal Advisors.
18. Although AFSI issued various disclosures to clients regarding conflicts of interest and compensation received by advisors and the company in the sale of Proprietary Mutual Funds, it was not until April 1, 2002 that AFSI enhanced its disclosures so as to fully describe all potential conflicts of interest regarding the sale of Proprietary Mutual Funds.
19. The Proprietary Funds sold by AFSI's Personal Advisors were also subject to limited transferability during the relevant time period should the client later decide to transfer his or her account from AFSI to another brokerage or advisory firm.
20. During the relevant time period, the Proprietary Funds were subject to limited transferability because AFSI had a limited number of agreements for which it had contracted with other broker-dealer firms to hold Proprietary Funds in

their accounts. Limited transferability was common in the mutual fund industry during the pertinent time period.

21. The Proprietary Fund prospectuses contained disclosures to investors regarding limited transferability of the Proprietary Mutual Funds, but the Department of Securities alleged that through its investigation it found that certain Personal Advisors operating in certain AFSI advisory offices in Illinois prior to 2005 had not adequately familiarized themselves with the prospectus information, and thus were found to have provided inaccurate information to clients regarding transferability at the time of sale.

ALLEGATIONS OF LAW

22. The activities described above constitute the offer to sell, and sale of, stock, mutual funds, and interests or instruments commonly known as "securities," and, therefore, constitute "the offer to sell a security" as defined in Sections 2.1, 2.5, and 2.5a of the Act.
23. The activities of AFSI Personal Advisors described above constitute the business of providing to others the advisability of investing in, purchasing, and selling securities for compensation, and therefore, are the activities of an "investment advisor representative" as defined in Section 2.12b of The Act.
24. Section 12.G of the Act states that it shall be a violation for any person to, "obtain money or property through the sale of securities by means of...any omission to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading."

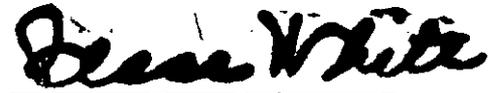
By failing to properly disclose, and/ or provide inaccurate information to AFSI clients regarding the above-described financial incentives and limited transferability associated with AFSI's Proprietary Funds, AFSI violated Section 12.G of the Act.

You are further notified that you are required pursuant to Section 130.1104 of the Rules and Regulations (14 Ill. Adm. Code 130) (the "Rules"), to file and answer to the allegations outlined above within thirty (30) days of the receipt of this Notice. A failure to file an answer within the prescribed time shall be construed as an admission of the allegations contained in the Notice of Hearing.

Furthermore, you may be represented by legal counsel; may present evidence; may cross-examine witnesses and otherwise participate. A failure to so appear shall constitute default, unless any Respondent has upon due notice moved for and obtained a continuance.

Delivery of Notice to the designated representative of any Respondent constitutes service upon such Respondent.

DATED: This 2nd day of June 2008.



JESSE WHITE *JW*
Secretary of State
State of Illinois

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